

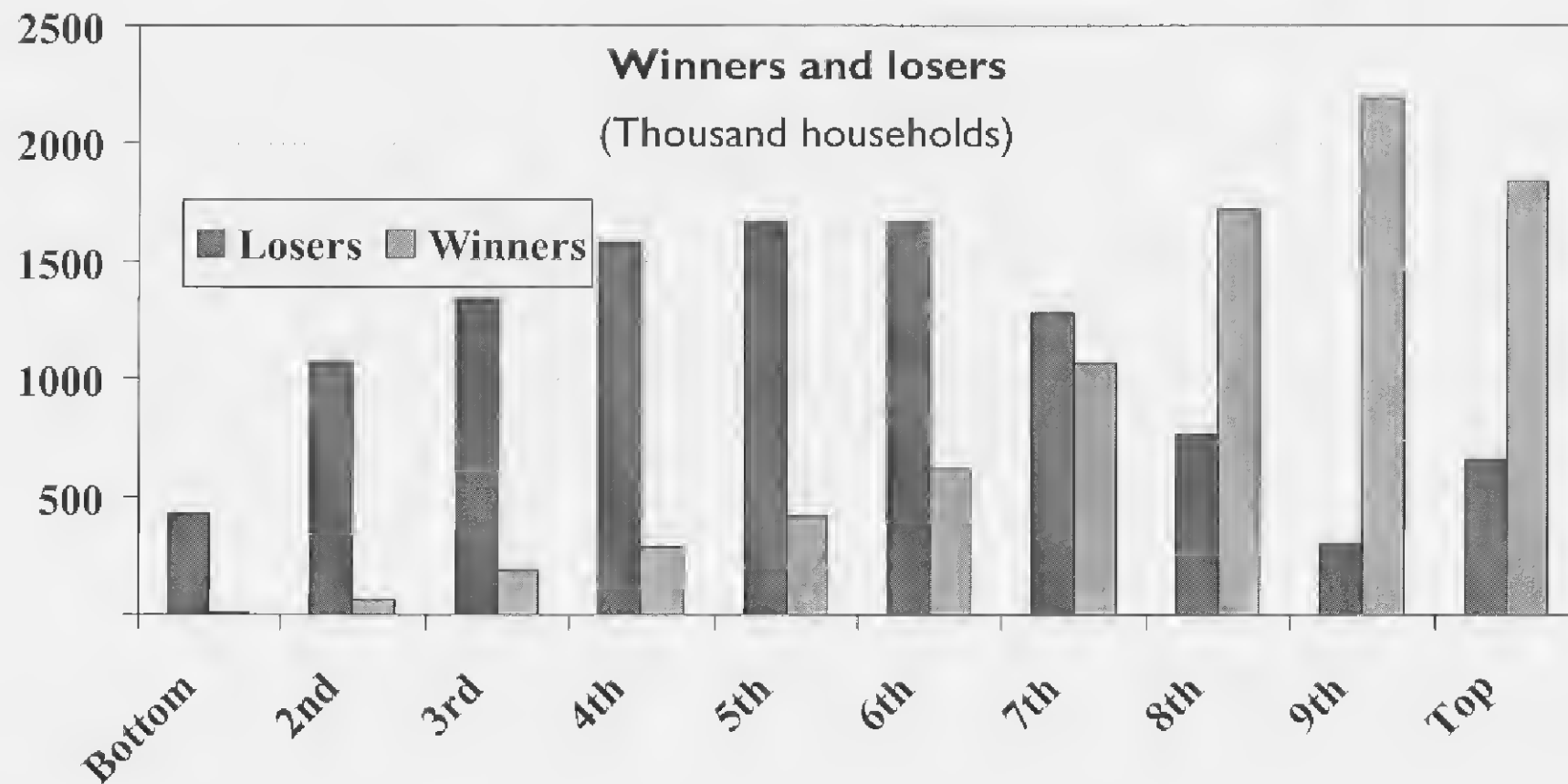
Package

Cost

No compensation package	£bn
Freeze PAs	+1.0
Abolish 10p (starting & dividend) rate	+7.3
Reduce BR to 20p	-9.3
1p NIC above UEL	+1.4
Indirect effects (benefits)	-0.2
TOTAL	+0.2

NB. Modelled costings from IGOTM, effects are cumulative
(i.e. allow for interactions)

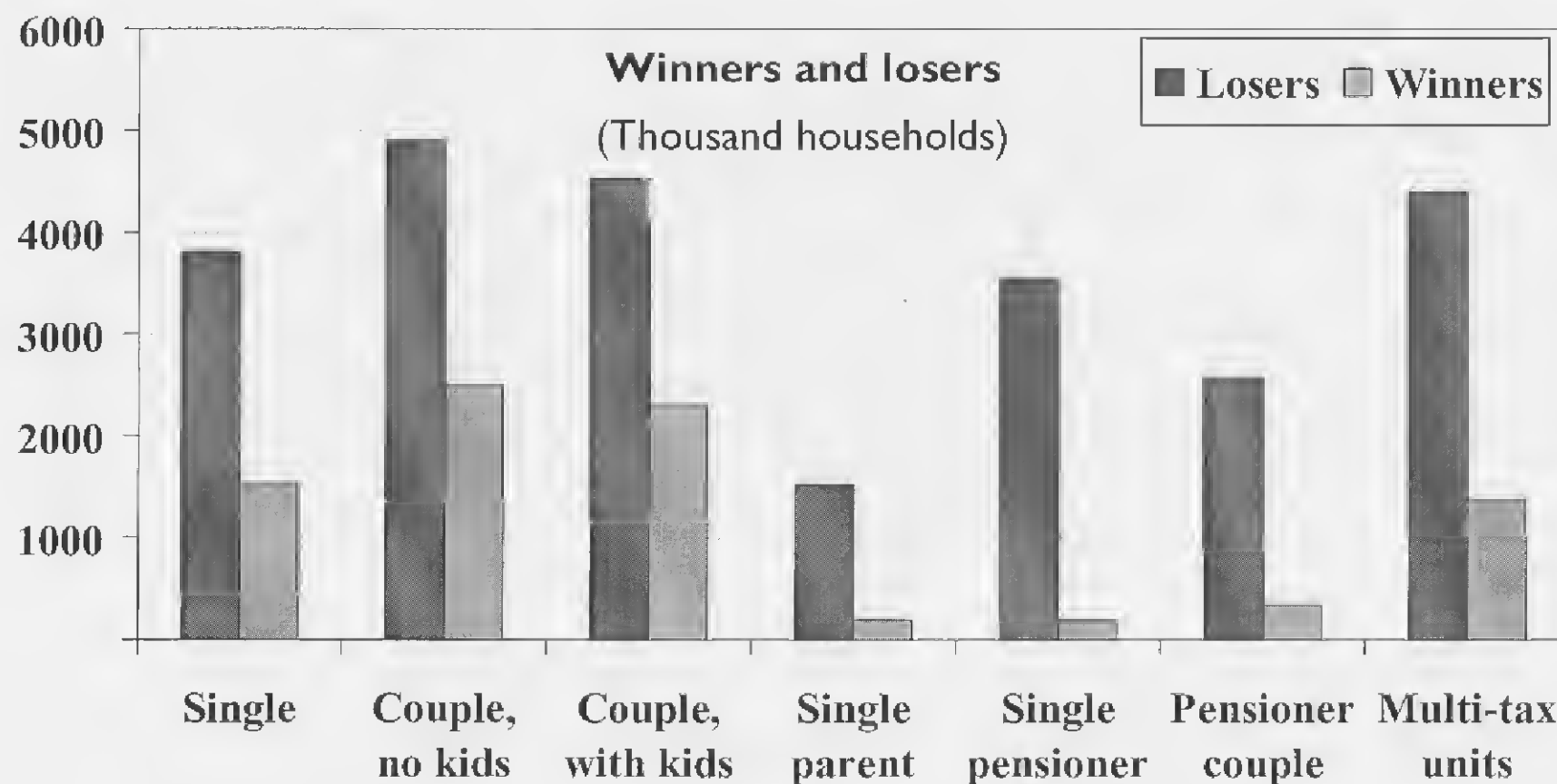
Winners and losers



Total winners: 8.7m;

Total losers 10.7m

Winners and losers



Who loses from abolition of 10p rate?

- Around 6m pensioner households lose
 - 0.5m lose from abolition of 10p ~~dividend~~ savings rate
 - 0.125m lose only from abolition of 10p ~~dividend~~ savings rate
 - So virtually all lose because of changes to the rate on non-dividend income (i.e. abolition of 10p starting rate)
- Around 5.25m households receiving Working and/or Child Tax Credit lose
 - Of which, 4.8m are families with children

Trying to compensate low income households

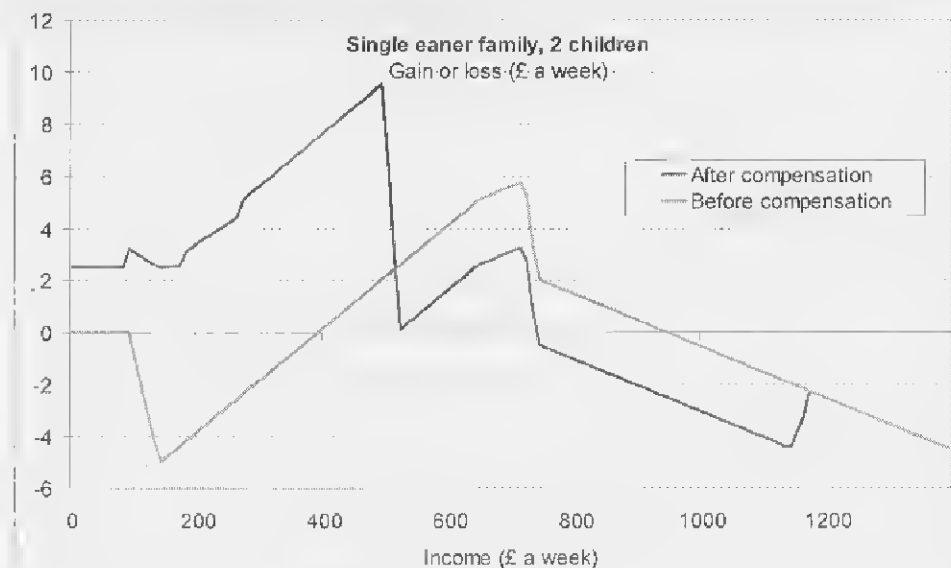
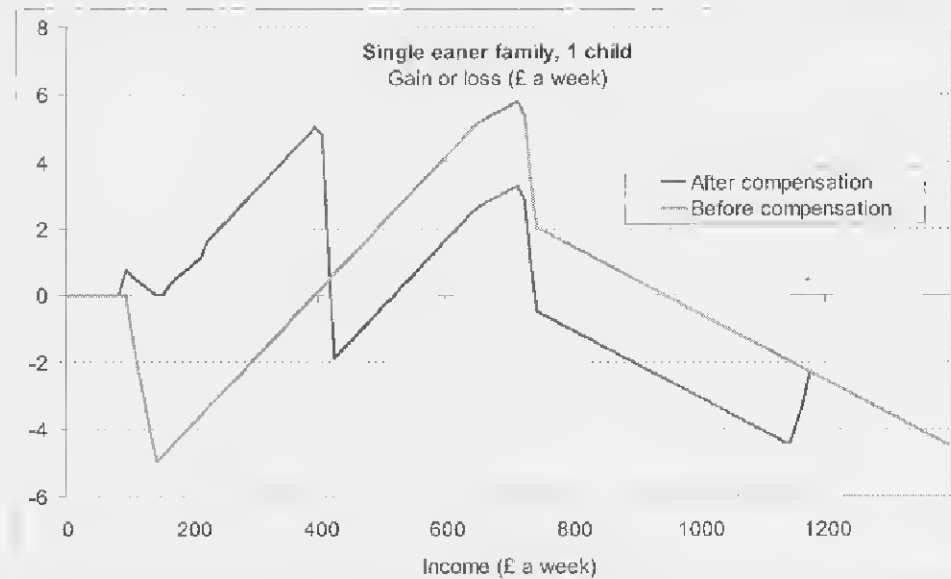
- Have focused on
 - Pensioners
 - Families with children
- Problem of deadweight – benefiting non-losers
- Pensioners are most difficult
 - No/little overlap between Pension Credit and paying tax
 - Therefore need to increase Pension Credit a lot to compensate
 - Alternative is to increase aged allowance
- Families with children: tax credits

Families with children

- Without compensation
- Single earner: greatest loss of £5 at £140/week income
- Dual earner (50:50 income split): max loss of £10 at £280/week
- Compensation:
 - WTC+£5
 - CTC family element -£2.50, child element +£2.50

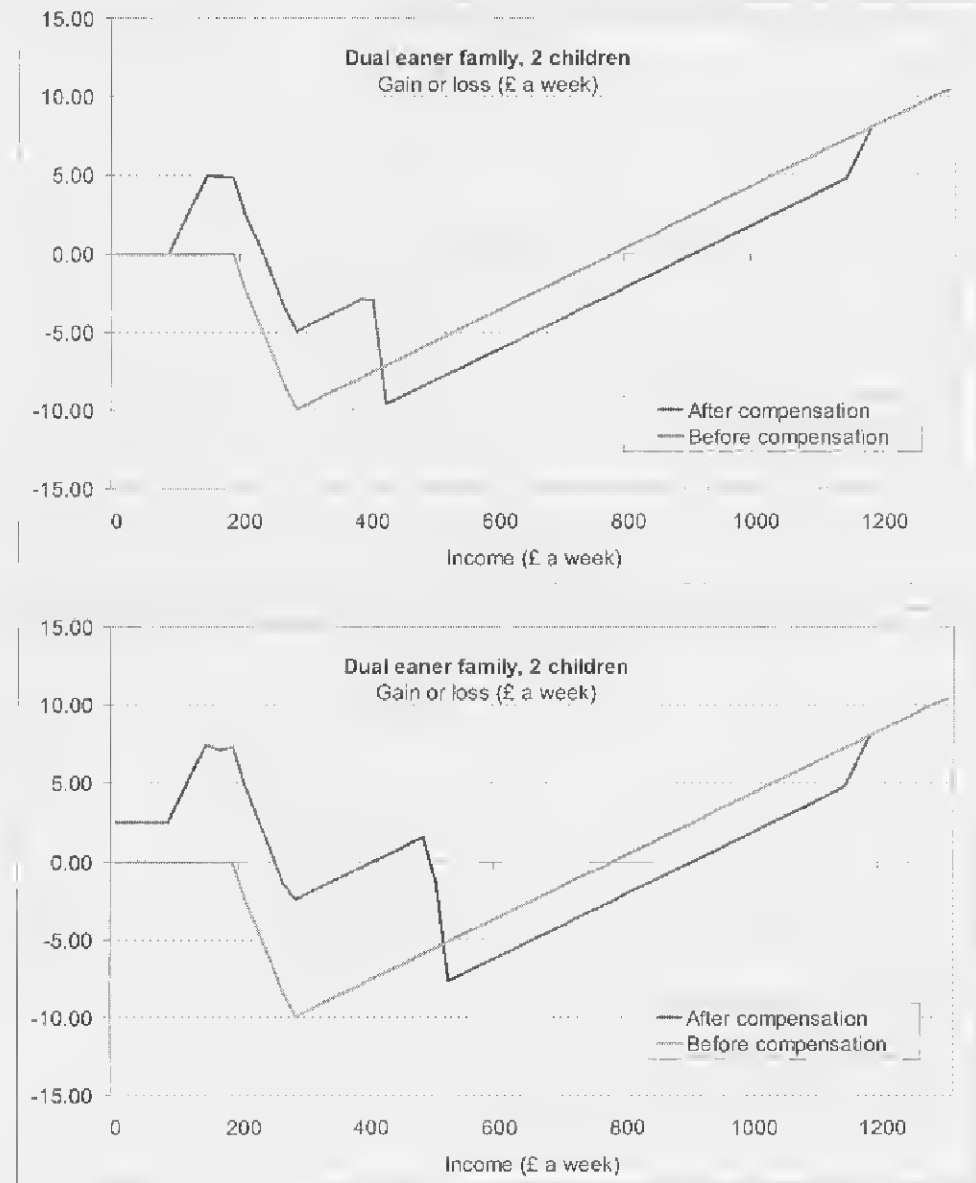
Single earner families

- ‘Tipping point’ is £390 a week for single earner families (equivalent to approx £20k p.a.)
- Protects 1 child families up to £400/week
- All 2 children families up to £750/week also protected



Dual earner families

- 'Tipping point' £780 for dual earners
- Compensation does much less for dual earner couple
- Even 2 child families lose small amounts of income at earnings around £300/week

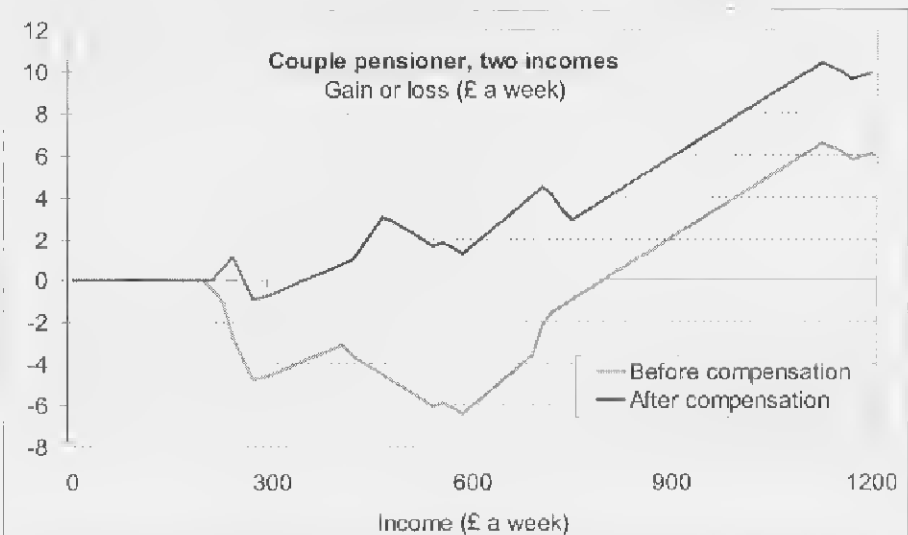
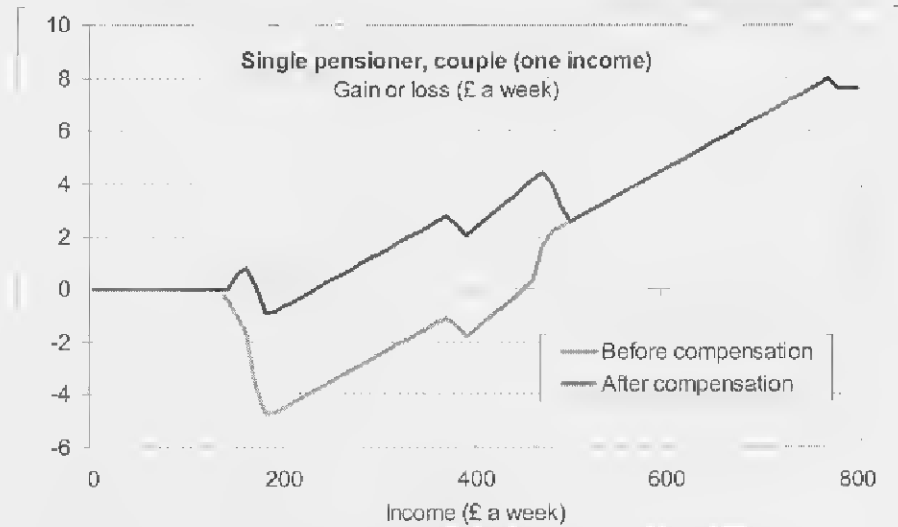


Pensioners

- Tax more complicated due to
 - Aged allowances
 - Married Couples' Allowance
- Pension credit is very blunt instrument in this case
- So have looked to increase in aged allowances of £1000/year

Pensioners

- Package protects virtually all pensioners
- Greatest gains to richer pensioners
- NB. Charts assume pension aged 65-74



Costs of compensation

	Exchequer effect (£bn)	Losers (million)		
		All	Pensioners (bottom 3 deciles)	Families (bottom 3 deciles)
Basic package	+0.2	10.7	2.9 (0.9)	3.0 (1.0)
With pensioner compensation				
•Aged allowance + £1,000	-0.5		1.1 (0.4)	
Families compensation				
•Tax credits package (WTC +£5, FE-£2.50, CE+£2.50)	-1.0			1.5 (0.1)
Total package	-1.3	7.1	1.1 (0.4)	1.5 (0.1)

Costs of alternative compensation package

	Exchequer effect (£bn)	Losers (million)		
		All	Pensioners (bottom 3 deciles)	Families (bottom 3 deciles)
Basic package	+0.2	10.7	2.9 (0.9)	3.0 (1.0)
With pensioner compensation				
•Increase pension credit (£10/16 single/couples)	-3.2		1.8 (0.3)	
Families compensation				
•Child tax credit (Child element +£5)	-1.7			1.4 (0.05)
Total package	-4.7	7.1	1.8 (0.3)	1.4 (0.05)

Compensating losers

- Individuals with incomes up to £20k (the ‘tipping point’) are key group of losers
- Around 6m households have one or more people with incomes below this level
- Many of these households are still net gainers before compensation (around 3.4m households)
- Smaller number (around 2.4m household) net losers

Further work: distributional analysis

- **Option 1**
 - A tax package comprising changes to 10p and basic rates and 1p on NICs above the UEL only
 - with compensation through changes to personal allowances for those of working age as well as pensioners (N.B. changes to personal allowances are costly – increasing personal allowances by £100 costs around £700m – and benefits higher rate taxpayers most)
- **Option 2**
 - A tax package (freeze personal allowances, changes to 10p and basic rates, compensation through tax credits and aged allowances)
 - paid for by a 1p increase in NICs (above and below the UEL – yields approx £9½bn, of which employee £5bn & employer £4½bn); where the NICs change is excluded from the distributional analysis of the tax package.